1174

Richard T. McCormack

Current
Policy
No. 1174

Competitiveness in the Global Marketplace

United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Richard T. McCormack, Under Secretary for Economic Affairs, before the President's Executive Exchange Alumni Association, Washington, D.C., May 11, 1989.

I'd like to talk to you today about the future of America's competitiveness. We now live in a world in which far-reaching changes in international economic and financial relationships, accelerated by advances in technology, transportation, and communications, have stimulated increasing global competition. As we approach the economic summit in Paris this summer, now is a good time to take stock of our position and prospects in this emerging global marketplace.

My basic theme is that the key to our international competitiveness is also the key to our trade policy and to our leadership role in the world economy: that is to maintain responsiveness to market forces domestically and internationally. The key to competitiveness, in other words, is competition. We must be ready, willing, and able to move resources around—to structurally adjust our economy—in order to meet global standards of excellence.

There has been a lot of talk in recent years about America's declining competitiveness in world markets. Yet, for all the pronouncements of doom and gloom, the facts suggest a different, more nuanced story.

In fact, we are currently in the seventh year of sustained economic growth, an unprecedented accomplishment in peacetime. Nearly 20 million jobs have been created since November 1982, and the civilian unemployment rate in recent months has reached the lowest figure since 1973. The U.S. economy is not only alive and well, it is booming.

If this is the case, then what is the controversy over competitiveness? Much of the problem, as I see it, lies in how we define the word. In some quarters, for example, the trade balance is often mistakenly seen as a yardstick of competitiveness. One is then led to the conclusion that the large U.S. trade deficits of recent years are indication of competitive decline. Yet the trade balance is not an accurate measure of competitiveness. Using this criterion, we would conclude, for example, that the Cote d'Ivoire, which had a trade surplus in 1988, is more competitive than the United States.

The Budget Deficit

But let's take a closer look at our trade imbalance. There are three basic factors that can explain our trade performance—one explaining the overall balance, the other two explaining the performance of specific industries.

Domestic Economic Environment. The first and by far the most important one is the domestic economic environment that provides the setting for trade. The essential truth is that the trade deficit is a macroeconomic phenomenon. A deficit means that our spending for consumption, investment, and government programs together are greater than production, with the difference coming from abroad. Increases in the government's budget deficit, in consumption, or in domestic investment in the United States can create an offsetting trade deficit. Since we do not want to discourage investment, in order to reduce the trade deficit, we must produce more, consume less, and save more or reduce the Federal budget deficit. Since the trade deficit is the result of imbalances in these broad aggregates, economic policies bearing on consumption, savings, investment, and the Federal budget are the appropriate tools for correcting our trade deficit.

Sectoral Competitiveness. When we observe the trade performance of specific sectors of the economy, a second factor—sectoral competitiveness—emerges. While we continue to be leaders in many sectors of the economy, in some U.S. industries the quality of goods, marketing, and distribution efforts have been inferior to that of foreign competitors. When inferior quality develops, it is immediately reflected in consumers' choices in the marketplace. If a product made in the United States is not as desirable as the item produced by the the foreigner, or as efficiently marketed, then the U.S. producer will lose market share to the foreign rival.

Protectionist Policies. Finally, protectionist policies play a role in the

S1.71/4:

READEX FICHE best copy available

trade of specific goods. Everyone involved in international business knows of foreign government policies or business practices which effectively closed market access. The "level playing field" is an important issue in our trade negotiations, and for specific industries, trade policy measures can be geared to open markets abroad. Nonetheless, foreign tariffs, quotas, and other barriers to trade are not the principal cause of the overall trade deficit. The U.S. trade deficit widened significantly in the 1980s, yet there was no massive increase in trade barriers during this period. The principal reason for the trade deficit lies not in foreign barriers nor in the stars, it lies within ourselves.

Policies of massive retaliation and "managed trade" will, therefore, not solve the trade deficit issue or the competitiveness issue for that matter. They will only succeed in wrecking the international trading system. We must never forget that the massive increase in trade barriers in the 1930s made the depression even deeper. We must also remember that trade liberalization is a key reason for widespread economic progress in the last 40 years.

Without minimizing our trade deficit problems, let me offer an alternative definition of national competiveness: the ability of a country's economy to sustain a high and growing standard of living compared with other countries, based on the quantity and quality of the goods and services it produces. This, it seems to me, is what we're really after—a measure of overall economic performance.

With this in mind, we can ask the really important questions: Is the U.S. economy performing at its maximum potential? And how do we stack up against the rest of the world?

Using this new definition, the United States remains very competitive, indeed. In terms of real standards of living, the United States ranks highest among OECD [Organization for Economic Cooperation and Development] countries. In 1987, we were approximately 20% ahead of both Japan and West Germany.

Many of our trading partners have begun, to be sure, to "catch up" with the United States in recent years by closing the gap in productivity and living standards; but that should not be viewed as a failure on our part. On the contrary, the economic recovery of Europe and Japan in the postwar period, as well as the emergence of the newly industrialized economies, should be viewed as major successes to which U.S. foreign and economic policies have made a significant contribution. Economic growth is the best friend of democracy, and stable democracies in these countries serve U.S. interests.

More to the point, competition among these countries and the United States is the lifeblood of a healthy world economy, and every country which joins the challenge gains from it. Too often, the trend toward increasingly competitive world markets is viewed with apprehension as a zero-sum game. The remarkable record of trade liberalization, increasing competition, and economic growth in the postwar period belies this fear.

These remarks are not to suggest, of course, that American companies should look with equanimity on their performance or on foreign trade barriers. Although U.S. labor productivity still ranks highest in the world in absolute terms, a recent MIT [Massachusetts Institute of Technology] study cites lagging U.S. productivity *increases* in recent years as a major problem, for example. In specific companies, there are other problems, too, such as poor product quality and marketing efforts mentioned earlier, inadequate worker training, and an inordinate emphasis on short-term profits. These difficulties can be summarized as lack of responsiveness to the marketplace—now increasingly global.

Adjustment to Changing Markets

The successful economic performance of the United States over the years has been the result of our flexibility in deploying our labor force, our capital, our know-how, and our other economic resources to their most productive use. Our future economic success will similarly depend on our ability to provide a responsive economic environment and adequate incentives to maintain this dynamism.

Economic growth, in other words, requires continuous adjustment. Our economic welfare is improved when our workforce and capital readily shift to more highly valued activities in response to changes in demand, technology, and the costs of production.

In sum, the key to international competitiveness is maintaining a high degree of openness to change in the domestic economy. Ossification—through policies and practices that block this adjustment process—kills our ability to compete, just as it nearly paralyzed the economies of certain European countries in the 1970s.

Promoting domestic competition also requires a free and open policy toward the international flow of goods, services, capital, and technology. International competition will shift our resources to areas where we have a comparative advantage. This means, of course, that we cannot be number one in every endeavor, but an open trading system based on specialization means that we do not have to be number one in every industry. The performance of individual sectors is not the key issue in determining who is number one any more than in sports; the statistics of any individual player measure the performance of the team.

Secondly, competitiveness depends on the quality of our labor force. Education and training embodied in American workers are estimated to account for about three-quarters of the United States' total stock of productive capital. During the postwar era, improvements in this human capital—which we continue to strive for—contributed 10%–20% of real output growth. Similarly, investments in research and development have led to technological advancements which have improved productivity. With this framework in mind, we can now put the policy issues into clearer perspective.

Government's Role in Economic Competitiveness

Overall, there is a certain, but limited, role for government; the best way to enhance competitiveness is basically to let it happen on its own. While government's role is essential in some areas to protect the common good, American entrepreneurs as a rule don't need government officials making decisions for them. We might be better off, for example, reducing legal restrictions on joint high-tech production ventures for the sake of stimulating technological advancement. The role of active government policies should be to create an economic environment conducive to competition, innovation, and growth.

First, we must all work to reduce the Federal budget deficit. As I suggested earlier, this is one key to reducing our current account deficit. But beyond that, reducing the need for the Federal Government to borrow increases the capital available for private-sector investment.

A related policy objective is to maintain a stable macroeconomic environment. Hard experience has taught us how inflation can damage our eco-

nomic system by distorting relative prices and investment decisions. The Federal Government owes it to all Americans to erase the specter of inflation.

The next, and equally important, role of government is to maintain open markets, both here and abroad. For in a rapidly changing high-tech environment, the free flow of goods, services, information, and capital is essential if we are to maintain flexibility in world markets.

To this end, the Administration is pursuing policies of open trade. These efforts are taking place, I need not remind you, in the face of strong protectionist pressures. But we should all clearly understand that openness to international markets in maintaining our competitiveness makes the Bush Administration's commitment to an open trading system not only a matter of principle but also one of national self-interest.

Furthermore, barriers to imports are a tax on our export industries. They deprive our exporters of access to the range of intermediate goods available to their foreign competitors. Moreover, they push resources into less efficient industries, decreasing our economic welfare and raising costs for exporters.

At the same time, we are attempting to reduce foreign trade barriers. The centerpiece of this strategy is the Uruguay Round of multilateral trade negotiations, which holds the potential of achieving significant agreements on trade in agriculture and services, protection of intellectual property rights, and strenghtening the GATT [General Agreement on Tariffs and Trade] system. These negotiations are, therefore, of great importance in providing fair access to the growing foreign markets in which U.S. exporters can flourish.

Finally, this Administration supports free international investment flows. Barriers to foreign direct investment deprive us of foreign capital and restrict our access to foreign technology.

We are also pursuing policies to promote domestic investment which creates new jobs, new markets, and new technologies. Let me mention two ways to promote investment. Earlier I mentioned the benefits of deficit reduction for investment. In addition, the President favors reducing the capital gains tax to 15% on long-held assets, which would further encourage private investment.

Increased investment should greatly benefit research and development, with decisions made primarily by the private firms which receive the benefits of such investments. Acknowledging the key role of patent protection in stimulating innovation in publicly supported research, we now encourage the patenting of technologies resulting from research performed in Federal laboratories.

The government has taken other steps to promote research and development.

- The President has proposed a permanent extension of the research and experimentation tax credit.
- The Administration is funding a number of new university-based interdisciplinary science centers to perform long-term research in emerging technologies.
- The Administration has also called for increased funding for NASA [National Aeronautics and Space Administration] and the superconducting-supercollider.
- Finally, the President has proposed doubling the budget of the National Science Foundation by 1993.

Education Innovation and Reform

President Bush has stated his desire to be known as the "education President." The government is, therefore, stressing improvements in the quality of our system of education. Without improved education, we cannot remain flexible, and without flexibility we cannot be competitive.

In this regard, we must improve the knowledge and skills of the workforce needed to create new technologies and convert them into new products and services. Just as we reoriented our educational system after Sputnik, perhaps the time has come to see we are adequately equipping the next generation to compete in the world marketplace.

We are already working with the National Science Foundation on a wide range of programs to improve the science and engineering workforce. The proposed education excellence act of 1989 will further improve elementary and secondary education by building on earlier initiatives which have stimulated educational innovation and reform.

Education has even broader and more far-reaching importance for the future of America's competitiveness. For in a flexible, dynamic economy, education must never stop. We must be willing to assimilate new ideas and apply our skills and ingenuity to ever-changing markets, just as the great American inventors have done in the past.

In the global marketplace, this means that we must maintain an international outlook on new ideas and technologies. American engineers, scientists, and business executives must be encouraged to gain international experience, to recognize emerging market opportunities abroad, and even to learn the foreign languages necessary to remain at the forefront of new developments in their respective fields.

Confidence in America's Future

Let me sum up by returning to the original question: Where does America stand in the world economy? My answer is that we have a very sound economy with continuing high potential.

We can best understand the basic soundness of the U.S. economy by observing two very significant facts. First, in testimony to economic performance, the rest of the world has chosen to invest heavily in the United States in recent years. That, in itself, is a vote of confidence in America's future.

An even more direct sign that we will respond positively in the years ahead, finally, is the fact that so many highly motivated immigrants still seek to make the United States their home. As did our parents, grandparents, and those before them, the new immigrants constantly renew the American spirit of enterprise and hope. Their contributions, in themselves, immeasurably add to our strength to forge ahead.

Thus, while government lays the groundwork, the ingenuity and drive of the American people and American enterprises will be called upon to respond to the major challenges we face—adjustment to changing markets, the budget deficit, and the need for a well-educated labor force. Our reply to these challenges will determine the future of American competitiveness. I, for one, am confident of the outcome. ■

Published by the United States Department of State • Bureau of Public Affairs
Office of Public Communication • Editorial Division • Washington, D.C. • May 1989
Editor: Sharon R. Haynes • This material is in the public domain and may be reprinted without permission; citation of this source is appreciated.

PA/OAP, Rm. 5815A
United States Department of State
Washington, D.C. 20520

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE $300

Address Correction Requested

BULK RATE
POSTAGE & FEES PAID
U.S. Department of State
Permit No. G–130